

Message Text

UNCLASSIFIED

PAGE 01 OTTAWA 07841 01 OF 02 300008Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 ITC-01 /068 W
-----105474 300045Z /73

R 292353Z AUG 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 4578
INFO AMEMBASSY PARIS
AMCONSUL MONTREAL
ALL OTHER AMCONSULS CANADA POUCH

UNCLAS SECTION 01 OF 02 OTTAWA 07841

USOECD

E.O. 11652: N/A
TAGS: ECON, CA
SUBJECT: SECOND QUARTER CANADIAN GNP DECLINES

REF: A. OTTAWA 5470; B. OTTAWA 7722

1. SUMMARY. REAL GNP FELL 0.6 PERCENT IN THE SECOND QUARTER OF 1977 FOLLOWING A 1.6 PERCENT (REVISED) INCREASE IN THE FIRST QUARTER. THIS IS THE THIRD QUARTER IN THE PAST YEAR IN WHICH REAL GNP HAS DECLINED. PERSONAL EXPENDITURE AND NET EXPORTS OF GOODS AND SERVICES WERE DOWN, WHILE INVESTMENT SHOWED LITTLE CHANGE AND GOVERNMENT SPENDING INCREASED marginally. INVENTORIES DECLINED. THE GNP DEFLATOR ROSE 1.6 PERCENT FOLLOWING A 0.8 PERCENT RISE IN THE FIRST QUARTER. THE SECOND QUARTER DECLINE WAS NOT FORESEEN UNTIL RECENTLY (SEE REFERENCE B) AND WILL CREATE MORE PRESSURE ON THE FEDERAL GOVERNMENT TO TAKE FURTHER ACTION SOON TO STIMULATE THE ECONOMY. SOME FURTHER EXPANSION CAN BE EXPECTED IN THE SECOND HALF OF THE YEAR. YEAR OVER YEAR GNP GROWTH WILL BE VERY SLOW AND IS NOW UNCLASSIFIED

UNCLASSIFIED

PAGE 02 OTTAWA 07841 01 OF 02 300008Z

LIKELY TO BE LESS THAN 3 PERCENT FOR 1977. END SUMMARY.

2. REAL GNP IN THE SECOND QUARTER (SEASONALLY ADJUSTED) DROPPED 0.6 PERCENT. CURRENT DOLLAR GNP ROSE 1 PERCENT TO A 202.6 BILLION DOLLAR ANNUAL RATE.

3. MUCH OF THE DECLINE CAME FROM WEAKNESS IN THE FOREIGN

SECTOR WHICH HAD BEEN THE MAIN SOURCE OF STRENGTH IN THE FIRST QUARTER (SEE REFERENCE A). IN REAL TERMS, EXPORT OF GOODS AND SERVICES FELL 1.3 PERCENT WHILE IMPORTS WERE UP 1.9 PERCENT. EVEN THOUGH A MERCHANDISE TRADE SURPLUS OF DOLS 307 MILLION WAS REGISTERED IN THE SECOND QUARTER, THIS SURPLUS WAS WELL BELOW THE FIRST QUARTER SURPLUS OF DOLS 823 MILLION AS EXPORT VOLUMES DECLINED IN THE SECOND QUARTER BY 1.2 PERCENT AND IMPORT VOLUMES ADVANCED 1.3 PERCENT. IMPORT PRICES ROSE FASTER THAN EXPORT PRICES DUE TO CURRENCY DEPRECIATION. THE SERVICE DEFICIT CONTINUED TO RISE, ESPECIALLY ON NET INTEREST PAYMENTS ABROAD AND THE GROWING TRAVEL DEFICIT.

4. THE INCREASED IMPORT VOLUME IS ODD, GIVEN WEAK FINAL DOMESTIC DEMAND AND THE RISE IN THE RELATIVE PRICE OF IMPORTS. STATCAN SPECULATES THAT MUCH OF THE IMPORT RISE MAY BE TRACEABLE TO LARGE INCREASES IN IMPORTS OF MOTOR VEHICLE PARTS, MOST OF WHICH MAY BE EXPORTED IN MOTOR VEHICLE ASSEMBLIES IN A LATER TIME PERIOD. STATCAN ALSO CONJECTURES THAT THE DECLINE IN EXPORTS IN THE SECOND QUARTER MAY REFLECT ABNORMALLY HIGH EXPORTS IN THE FIRST QUARTER RELATED TO SUPPLY PROBLEMS IN THE U.S. RESULTING FROM THE SEVERE WINTER. EXPORTS OF SEMI-PROCESSED MATERIALS SUCH AS IRON ORE AND ALUMINUM WHICH INCREASED RAPIDLY IN THE FIRST QUARTER, FELL BACK IN THE SECOND. TAKEN TOGETHER, HOWEVER, REAL EXPORTS OF GOODS AND SERVICES

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OTTAWA 07841 01 OF 02 300008Z

AVERAGED QUARTERLY INCREASES OF 2.8 PERCENT OVER THE FIRST HALF OF THE YEAR, PROBABLY A MORE SUSTAINABLE RATE OF INCREASE THAN THE 7.2 PERCENT ADVANCE IN EXPORTS REGISTERED IN THE FIRST QUARTER.

5. PERSONAL INCOME AND CONSUMPTION. LABOR INCOME ROSE 2.0 PERCENT IN THE SECOND QUARTER, A LOWER RATE OF INCREASE THAN DURING THE FIRST QUARTER IF THE DISTORTING EFFECTS OF RETROACTIVE WAGE PAYMENTS ARE REMOVED. THIS RATE OF INCREASE IS ONLY ABOUT ONE HALF OF THE QUARTERLY INCREASE REGISTERED IN 1976. PERSONAL INCOME IN THE SECOND QUARTER ALSO GREW ABOUT 2 PERCENT. PERSONAL DISPOSABLE INCOME INCREASED TO 3.6 PERCENT IN PART DUE TO NON-RECURRING TAX REBATES. THE PERSONAL SAVINGS RATE INCREASED TO 10.5 PERCENT FROM 8.6 PERCENT IN THE FIRST QUARTER, POSSIBLY DUE TO THE REACCELERATION OF PRICES AND HIGH UNEMPLOYMENT RATES. THE GROWTH OF CONSUMER CREDIT SLOWED. AS A RESULT OF A HIGHER SAVINGS RATE, PERSONAL EXPENDITURES ON GOODS AND SERVICES ROSE ONLY 1.4 PERCENT IN CURRENT DOLLARS AND FELL 0.9 PERCENT IN REAL TERMS. CONSUMER SPENDING WAS DOWN ON DURABLE AND SEMI-DURABLE GOODS (MOSTLY AUTOMOBILES AND CLOTHING) BUT ROSE ON FOOD AND SERVICES.

6. GROSS FIXED CAPITAL FORMATION SHOWED LITTLE CHANGE FROM THE FIRST QUARTER. BUSINESS INVESTMENT IN MACHINERY AND EQUIPMENT AND PRIVATE RESIDENTIAL CONSTRUCTION DECLINED BUT WAS OFFSET IN INCREASES IN NON-RESIDENTIAL CONSTRUCTION, ESPECIALLY BY UTILITIES. THE RATE OF PRIVATE INVESTMENT IS NOW 3 PERCENT BELOW THAT OF A YEAR AGO.

7. INVENTORIES. LIQUIDATION OF INVENTORIES CONTINUED, MOSTLY IN FARM INVENTORIES. THERE WAS ACCUMULATION IN MANUFACTURING AND AUTOMOBILES, BUT A SUBSTANTIAL AND WIDE-SPREAD DECLINE IN WHOLESALE TRADE. FINAL DOMESTIC DEMAND

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 OTTAWA 07841 02 OF 02 300015Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 ITC-01 /068 W
-----105554 300046Z /73

R 292353Z AUG 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 4579
INFO AMEMBASSY PARIS
AMCONSUL MONTREAL
ALL OTHER AMCONSULS CANADA POUCH

UNCLAS SECTION 02 OF 02 OTTAWA 07841

DECREASED 0.3 PERCENT IN THE SECOND QUARTER FOLLOWING AN INCREASE OF 1 PERCENT IN THE FIRST QUARTER.

8. GOVERNMENT. REVENUES AT ALL LEVELS OF GOVERNMENT DECLINED BY 2.3 PERCENT, REFLECTING TAX REBATES AND THE SLOWER GROWTH OF INCOMES. EXPENDITURES ROSE BY 2.5 PERCENT. THE FEDERAL GOVERNMENT SECTOR DEFICIT ON A SEASONALLY ADJUSTED BASIS WIDENED FROM DOLS 1.7 BILLION IN THE FIRST QUARTER TO DOLS 5.5 BILLION IN THE SECOND. MOST OF THIS CHANGE CAME FROM THE FEDERAL LEVEL AS SURPLUSES ACTUALLY INCREASED AT THE PROVINCIAL LEVEL AND SHOWED LITTLE CHANGE ELSEWHERE.

9. COMMENT: DESPITE DECLINES IN REAL GNP IN THREE OUT OF THE LAST FOUR QUARTERS, IT IS NOT CLEAR THAT THE POOR CANADIAN ECONOMIC PERFORMANCE IS DEEP ENOUGH OR WIDE

ENOUGH TO BE CHARACTERIZED AS A RECESSION. IN PART, THE SECOND QUARTER DECLINE MAY BE A STATISTICAL ABERRATION -- REFLECTING ADJUSTMENT FROM WHAT MAY PROVE TO HAVE BEEN ABNORMALLY STRONG EXPORT GROWTH IN THE FIRST QUARTER AS WELL AS THE REAL IMPACT OF HIGHER PRICES (ESPECIALLY IMPORT PRICES) ON CONSUMERS. PRELIMINARY FIGURES REPORTED UNCLASSIFIED

UNCLASSIFIED

PAGE 02 OTTAWA 07841 02 OF 02 300015Z

HERE ARE ALSO SUBJECT TO EXTENSIVE REVISION BY STATCAN. EVERTHELESS, THE ECONOMIC RECOVERY IN CANADA, IF THAT IS WHAT IT IS, IS CLEARLY MUCH WEAKER AND MORE FRAGILE THAN HAD BEEN THOUGHT THREE MONTHS AGO. WHILE GROWTH IN THE FIRST HALF IS STILL POSITIVE, THERE IS CLEARLY LITTLE SOURCE OF STRENGTH AS YET IN THE DOMESTIC ECONOMY. EXPORTS SHOULD REMAIN A SOURCE OF STRENGTH OVER THE SECOND HALF. (THE JULY MERCHANDISE TRADE SURPLUS WAS A STRONG DOLS 328 MILLION). INVESTMENT INTENTION SURVEYS INDICATE SOME POSITIVE -- IF MODEST -- IMPROVEMENT DURING THE SECOND HALF. YET THE VERY SLOW GROWTH NOW INDICATED FOR THE YEAR -- PERHAPS LITTLE MORE THAN TWO TO TWO AND ONE HALF PERCENT OVER 1976 -- GUARANTEES CONTINUED HIGH RATES OF UNEMPLOYMENT. EFFECTS ON DOMESTIC PRICE LEVELS AND CONSUMERS OF EXCHANGE RATE DEPRECIATION ARE STILL BEING FELT. AS NATIONAL ELECTIONS APPROACH IN LESS THAN A YEAR, POLITICAL PRESSURES TO TAKE MORE ACTION TO STIMULATE THE ECONOMY WILL SURELY INCREASE.

10. GNP AND COMPONENTS, SEASONALLY ADJUSTED, PERCENT CHANGE FROM PREVIOUS QUARTER, CONSTANT DOLLARS

----- 1976 ----- 1977

QUARTERS	I	II	III	IV	I	II
----------	---	----	-----	----	---	----

GNP	3.2	0.9	(0.3)	(0.2)	1.6	(0.6)
-----	-----	-----	-------	-------	-----	-------

FINAL
DOMESTIC

DEMAND	0.5	1.9	(0.9)	1.2	1.0	(0.3)
--------	-----	-----	-------	-----	-----	-------

PERSONAL
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OTTAWA 07841 02 OF 02 300015Z

EXPENDI-

TURES	0.3	2.5	0.8	2.0	-	(0.9)
-------	-----	-----	-----	-----	---	-------

GOVT
CONSUMP-
TION 2.7 0.5 (1.8) (1.8) 4.7 1.4

GOVT
INVEST-
MENT 0.8 - (4.8) 0.5 0.4 4.1

BUSINESS
INVEST-
MENT 0.9 1.5 (5.0) 1.9 1.0 (0.6)

EXPORTS 3.2 9.4 2.0 (1.6) 7.2 (1.3)

OF WHICH
GOODS 4.0 5.0 2.5 (1.2) 9.1 (2.1)

IMPORTS 3.9 2.3 (0.7) 1.9 1.4 1.9

OF WHICH
GDODS 5.4 0.5 (0.2) 1.3 1.7 1.3
ENDERS

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GNP, ECONOMIC DATA
Control Number: n/a
Copy: SINGLE
Sent Date: 29-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977OTTAWA07841
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770312-0660
Format: TEL
From: OTTAWA OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770812/aaaaakat.tel
Line Count: 246
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 33f75751-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 OTTAWA 5470, 77 OTTAWA 7722
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 09-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1449739
Secure: OPEN
Status: NATIVE
Subject: SECOND QUARTER CANADIAN GNP DECLINES
TAGS: ECON, CA
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/33f75751-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009